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Tax Rule Down to One Vote

Upcoming House-Senate Conference to Be Retirees' Last Chance

By Eric Wiesenthal

The three-year recovery rule that affects the taxation on annuities of federal retirees is running out of votes.

So far the rule has lost votes in the House Ways and Means Committee, the full House, Senate Finance Committee and the full Senate.

All that remains is the conference committee, which will work out differences in the tax reform measure. However, since both chambers have voted against the rule, it may not stand much of a chance in conference either.

The Senate added the latest defeat, voting 57 to 42 against an amendment introduced by Sen. Paul S. Trible Jr., R-Va., that would have maintained the rule.

The House earlier voted to end the three-year rule as of July 1, while the Senate Finance Committee voted to begin a two-year phase-out of the rule beginning in January 1988.

Trible, along with Senators John W. Warner, R-Va., and Paul S. Sarbanes, D-Md., faced difficulty in trying to restore the rule on the Senate floor because all amendments had to be revenue-neutral.

That means should an amendment increase the deficit, a way would also have to be found to raise the identical amount of revenue.

Shifting the taxation on retirees would net the government about \$7 billion over the next several years, officials estimate.

Trible, Warner, Sarbanes and others backing the amendment proposed to raise the lost revenue by reducing the income levels at which the top personal and corporate tax rates in the bill would take effect.

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Modernization Work at the Library

Thurmond Bill On Lobbying Draws Criticism

By Eric Wiesenthal

also was involved with board's executive search, led to Casey replacing as postmaster general. Casey told *Federal Times* that he was contacted by Spartin re- n- ing the job about four months before being appointed. Casey said he thought Bill Casey, the chief executive officer of REI who is a neighbor and casual acquaintance of Casey in Dallas, had recom- mended him to Spartin for the job. Casey is quoted in press ac- counts of the time as saying, "The board of governors has decided by firing Carlin and hiring in a new man and that the logic of the REI case can prevail." Casey, who was a vice presi- dent of *The Washington Post* when he left that company in 1979, went to work for the White House shortly after Reagan as- sumed office. From May until the end of October 1981 Spartin, deputy director of presi- dential personnel, a job which involved the selection and re- commendation of appointees. On July 13, 1981, while Spartin was in the White House, a list of candidates for a vacancy on the postal board was prepared by the office. The list, which did not con- tain the typed name of McKean, was submitted to a meeting of

ns and compliance office, *Federal Times* a committee has been set up in May to work on the agency reorganization. Polshyn said in his four- teen tenure at OPM there have been many attempts at reorgani- zation with "some marginal improvements." There is al- most considerable worry on the part of the employees "but after reorganization no one is ad- versely affected," he said. Although he was unwilling to comment on the specifics, Wol- fe said the current plans will have a significant impact on employees. An OPM employee said that, at the top of the reorganization, managers are talking to several hundred OPM workers about their positions. The combined activities have created, unset- tled feelings around the agen- cy, he said.

— Susan Kellam

House, the usual forms and clearances had been processed and McKean was formally nominated by the president Nov. 4, 1981.

McKean, an accountant from San Francisco, became ac- quainted with Deaver in 1979, according to a General Account- ing Office report. He became Mr. and Mrs. Deaver's tax adviser.

In that role, McKean estab- lished an arrangement whereby Mrs. Deaver purchased, and then leased back, a truck from an Idaho dealership partially owned by McKean in order for the couple to attain a more ad- vantageous tax position.

McKean was introduced to Meese by Deaver and began ad- vising Mr. and Mrs. Meese on fi- nancial matters.

In June 1981, McKean, acting as a trustee for an investment pool, wrote a check for a loan to the couple for \$40,000. After a request from Mrs. Meese, McKean wrote Meese another check in the amount of \$20,000. The loans were interest free un- til the arrangement became public in 1983. The debt is listed

the case and later was prepared for the Senate hearings on con- firming Meese as Attorney Gen- eral by the law firm of Joseph Califano.

Califano, who is special coun- sel to the board, was paid by the board for representation of McKean in the Meese/Deaver affair and in a later case involv- ing a conflict of interest question.

In early 1985 the Justice De- partment began investigating a possible conflict involving McKean and a postal service legal contract.

On McKean's recommenda- tion, the board hired a San Francisco-based law firm to as- sist the USPS in contract negoti- ations with postal unions. The conflict of interest question arose when it was discovered that McKean shared a number of clients with the law firm and that he had been paid by the firm as an expert witness in sev- eral cases.

McKean told *The San Francis- co Chronicle*, "I think it would be a conflict of interest by not protecting the public by not sug- gesting the very best people

Because the General Ac- counting Office and the grand jury were already pursuing in- vestigations, Rep. Frank Mc- Closkey, D-Ind., asked McKean to stop the Califano inquiry. He raised a number of questions about the cost and necessity of a separate inquiry.

A high-ranking postal official reported to *Federal Times* that McKean had stopped the Califano review as a result of the Mc- Closkey letter. However, that report proved premature.

In his response to McCloskey, McKean confirmed that the board had paid Califano \$550,030.77 for services in 1985 and \$303,250.98 through April of 1986.

McKean said in the letter dated June 13, "As for the cost of our review, Mr. Califano ad- vised me on Monday that his firm intends to contribute his professional services and the professional services of any other attorneys who may work on this matter, without charge to the postal service except for any out-of-pocket expenses."

Carol Leonnig also contributed to this report.

Tax

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But opponents, including Sen. Robert Packwood, R-Ore., said the Tribble measure was, in effect, a new tax.

Final action by the Senate on the extensive tax measure has been held up on the floor as members have had to deal with dozens of amendments pro- posed to protect special inter- ests. Almost all proposals have been voted down.

Packwood and Sen. Bill Brad- ley, D-N.J., combined forces to help defeat the Tribble proposal.

Under the three-year recov- ery rule, 20 million workers, in- cluding 2.8 million federal em- ployees, have received their previously taxed contributions before having to pay taxes on the contributions made by the agencies.

Federal workers joining the recently enacted Federal Em- ployees' Retirement System (FERS) will be able to recover their contributions as a lump sum. But details of this measure

have not been fully worked out.

Tribble, in a floor statement for the losing amendment, told his colleagues the Office of Per- sonnel Management estimated recently that the average annu- ity received by federal retirees is \$12,000.

"Not a royal sum, but essen- tial to the livelihood of millions and millions of people," he said.

Approximately 300,000 federal employees will be eligible to retire by Oct. 1, 1986, according to OPM. Surveys conducted by OPM in January found that 75-95 percent of those eligible to retire would do so before the ef- fective date of any tax reform provision eliminating the three- year recovery rule.

And in surveys done this spring by federal agencies as di- verse as the Federal Bureau of Investigation, Central Intelli- gence Agency, and Housing and Urban Development found in- creases ranging from 50-80 per- cent in the number of retire- ments by federal workers in the last year linked, in part, to the possible shift in taxation.

"It is very clear that we are losing skilled, experienced em-

ployees at an alarming rate; and if the Senate adopts the pro- posed tax change, the loss of quality people will increase, and increase dramatically," Tribble said.

Packwood said every interest had given up something in the effort to reduce tax rates, and that passage of the amendment could wreck the sweeping tax reform legislation.

He and Bradley warned that the offsetting provision could, in its effect, tax more people be- cause more individuals would be paying taxes at the top rate of 27 percent if the income level pegged to that rate were reduced.

Because the Tribble amend- ment has failed in the Senate, public employee interest groups ranging from the Ameri- can Federation of Government Employees, the largest federal employee union, to the Ameri- can Federation of State, County and Municipal Employees are gearing up to lobby members of the House-Senate tax bill con- ference which is expected to be- gin work on the two bills next month.

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